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PP RUEHBC RUEHDBU RUEHDE RUEHDIR RUEHKUK  
DE RUEHKB #0050/01 0111159  
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FM AMEMBASSY BAKU  
TO RUEHC/SECSTATE WASHDC PRIORITY 2170  
INFO RUCNCIS/CIS COLLECTIVE PRIORITY  
RUCNIRA/IRAN COLLECTIVE PRIORITY  
RUEHDIR/IRAN RPO DUBAI PRIORITY  
RHMFISS/CDR USEUCOM VAHINGEN GE PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEKJCS/SECDEF WASHDC PRIORITY

S E C R E T SECTION 01 OF 02 BAKU 000050

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E.O. 12958: DECL: 01/07/2017  
TAGS: [PGOV](#) [PINR](#) [PREL](#) [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [IR](#) [AJ](#)  
SUBJECT: IMPLICATIONS OF UNSC SANCTIONS ON IRAN-AZERBAIJAN  
TRADE (C-RE6-01152)

REF: 06 STATE 192099

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Classified By: CDA Jason P. Hyland for reasons 1.4 (b) and (d)

11. (S) Summary - While growing, trade between Azerbaijan and Iran is relatively insignificant and is unlikely to be affected by current UNSC sanctions. According to official GOAJ trade statistics, trade between the two countries totaled USD 256.7 million (imports from Iran amounting to USD 63 million and exports to Iran totaling USD 193.4 million) between January and September 2006. Trade is concentrated in the energy sector and is conducted primarily between the state-owned energy entities of both countries. Outside of the energy sector, trade centers on basic retail goods, undertaken primarily by small traders operating on both sides of the border. Very few private Azerbaijani companies operate in Iran and the same holds true for Iranian companies in Azerbaijan. Consequently, Azerbaijani foreign direct investment in Iran is virtually nonexistent. Until UNSC sanctions begin to target the trade of refined petroleum products, natural gas, or electric power, trade between the two countries will most likely remain unaffected by the current sanctions regime. End Summary.

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Azerbaijan-Iran Trade and GOAJ Statistics  
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12. (S) While growing, trade between Azerbaijan and Iran is relatively insignificant and is unlikely to be affected by current UNSC sanctions. According to official GOAJ trade statistics, trade between the two countries totaled USD 256.7 million (imports from Iran amounting to USD 63 million and exports to Iran totaling USD 193.4 million) between January and September 2006. Compared to the same period in 2005, GOAJ statistics reflect a 43.9 percent increase in Azerbaijani exports to Iran and a 10.6 percent increase in imports from Iran. (Note - We believe actual trade figures likely are somewhat higher, as official figures rarely encompass the full scope of trade due to under-reporting by customs officials and other agencies, and significant small-time, cross-border trade undertaken by private individuals. End note.)

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Energy - the Linchpin of the Iran-Azerbaijan Trade Relationship  
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13. (S) Trade between Azerbaijan and Iran is concentrated in the energy sector and is conducted primarily between the state-owned energy entities of both countries. 2006 GOAJ export statistics indicate that refined petroleum products accounted for the lion's share of Azerbaijani exports - gasoline accounting for nearly 44 percent of exports and diesel fuel nearly 26 percent. The primary Azerbaijani state-owned entities involved include the State Oil Company of Azerbaijan (SOCAR), AzerGas, and AzerEnergy, while the primary Iranian entities include the National Iranian Oil Company (NIOC), National Iranian Gas Company (NIGC), and the Power Transmission and Distribution Network of Iran (TAVANIR). While a limited number of private Azerbaijani companies are thought to be involved in aspects of the energy trade (to include Azersun and its Middle East Petroleum subsidiary), Embassy is not aware of the involvement of any private Iranian companies in the Azerbaijan-Iran energy trading relationship.

14. (S) Outside of the energy sector, trade centers on basic retail goods, undertaken primarily by small traders operating on both sides of the border. 2006 GOAJ statistics indicate that basic retail goods accounted for the greatest percentage of Azerbaijani imports from Iran (21 percent), followed closely by natural gas (at 16 percent). Very few private Azerbaijani companies operate in Iran and the same holds true for Iranian companies in Azerbaijan. Consequently, Azerbaijani foreign direct investment in Iran is virtually nonexistent.

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More Aggressive Sanctions and Their Possible Consequences  
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15. (S) Until UNSC sanctions begin to target the trade of refined petroleum products, natural gas, or electric power,

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trade between the two countries will most likely remain largely unaffected by the current sanctions regime. If, however, more aggressive sanctions targeting energy were adopted by the UNSC, possible Azerbaijani compliance will put it at odds with its unpredictable neighbor and threaten energy supplies to the isolated Azerbaijani exclave of Nakhchivan. Given Nakhchivan's precarious geographic position, Azerbaijan entered into a energy-exchange agreement with Iran in which Azerbaijan exports natural gas to Iran's Astara region in return for equal Iranian natural gas exports to Nakhchivan. In addition, two joint hydroelectric power plant projects could also be affected, plants seen as critical in both countries as they seek greater electric power generation capabilities. While few Azerbaijani companies are active in Iran (let alone have made any considerable investments there), it is possible that more aggressive sanctions could contribute to cross-border smuggling of petroleum products, not an unlikely scenario given the large number of both Iranians and Azerbaijanis currently earning a living from cross-border basic retail goods trade. Furthermore, increased tensions could contribute to Iranian companies possibly seeking to relocate all or part of their operations to Azerbaijan, also not out of the realm of possibilities.

HYLAND